

VZCZCXRO2780
PP RUEHDBU
DE RUEHTA #0848/01 0930858
ZNY CCCCC ZZH
P 030858Z APR 07
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC PRIORITY 8980
INFO RUCNCIS/CIS COLLECTIVE 0109
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEAIIA/CIA WASHDC
RUEBAAA/DEPT OF ENERGY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ASTANA 000848

SIPDIS

NOFORN
SIPDIS

DEPT FOR EB/ESC; SCA/CEN (O'MARA)
COMMERCE FOR ADVOCACY CENTER: BLOPP

E.O. 12958: DECL: 04/02/2017
TAGS: [ENRG](#) [EPET](#) [KZ](#)
SUBJECT: KAZAKHSTAN: EXXONMOBIL PURSUING ONSHORE
PARTNERSHIP WITH KAZMUNAIGAZ SUBSIDIARY

REF: 06 ASTANA 3178

Classified By: Ambassador John Ordway; reasons 1.5(b) and (d).

11. (C) Summary: Rick Vierbuchen, Vice President of ExxonMobil Exploration Company, informed Ambassador Ordway on March 28 that ExxonMobil is negotiating a long-term partnership with KazMunaiGaz's (KMG) onshore exploration and production subsidiary (KMG E&P) to evaluate, acquire acreage, and potentially develop, acreage on Kazakhstan's northern Caspian shore. Vierbuchen told the Ambassador that he had traveled to Kazakhstan hoping to finalize the deal, only to be told by KMG (parent company) President Uzakbay Karabalin that, before signing off on the deal, KMG needed to "sort out" KMG E&P's relationship with the GOK, and with KMG, following KMG E&P's partial privatization in September (reftel). In fact, Vierbuchen explained, KMG appeared to be questioning whether KMG E&P should, in principle, sign an "exclusivity" agreement covering such a large area with an international oil company (IOC), given that KMG E&P's "preferential rights" to that acreage would then be conferred indirectly upon the IOC. Vierbuchen asked for Embassy assistance in clarifying GOK intentions, and, potentially, in pursuing the deal. Ambassador Ordway agreed to help, while reminding Vierbuchen of the requirements of the advocacy process. End Summary.

ExxonMobil VP Describes New Business Interest...

12. (C) Vierbuchen, VP of the company's Caspian and Middle East operations, opened the March 28 meeting with a smile, telling the Ambassador that, though it might seem "masochistic" in light of Kashagan delays and the stalled CPC negotiations, he had come to Kazakhstan to seek new business. ExxonMobil, he explained, was negotiating a "long-term" partnership with KMG E&P to evaluate, acquire, and potentially develop acreage on Kazakhstan's North Caspian shore. (For details on the project, see paragraph 5.) The deal had generated "a lot of low-level interest" in KMG, Vierbuchen explained, and he had traveled to Kazakhstan in hopes of finalizing the deal. However, Karabalin had told him earlier in the day that KMG needed time to "sort out" KMG E&P's relationship with KMG, and with the GOK, following KMG E&P's partial privatization in September. (Note: Approximately 40% of the company was sold on London's AIM and the Kazakhstan Stock Exchange. End note.)

13. (C) Karabalin, Vierbuchen continued, had also voiced concern whether KMG E&P should rightfully sign an exclusivity agreement, governing such a large area, with an IOC, particularly in light of KMG E&P's existing "preferential

rights" to onshore acreage. (Note: By virtue of a renewable, one-year "services agreement" with KMG, KMG E&P enjoys preferential access to unlicensed onshore oil and gas acreage. The company is also the beneficiary of the State's "right of first refusal" upon the transfer of existing onshore contracts.)

..and Asks for USG Assistance

14. (C) Vierbuchen asked the Ambassador for help in discerning whether Kazakhstan's decision-makers were, in fact, seriously reassessing KMG E&P's role (and priority rights) in light of the partial IPO. Vierbuchen also asked if, depending on the answers received, the Embassy would be willing to advocate for EM's business interest. Ambassador Ordway told Vierbuchen that the USG would be happy to help in any way it could, subject to the legal and formal requirements of the advocacy process.

Details of ExxonMobil's Potential Project

15. (C) Vierbuchen characterized the new venture as "high risk," in part because of the relative lack of seismic data covering the deep strata. The venture was decidedly long-term, he added, with "first oil" likely ten years away. The partners would first perform a "Joint Technical Study," including a high-definition aeromagnetic survey, over a broad section of the onshore. Once promising areas were identified within a smaller (but still vast) "Area of Mutual Interest" (AMI), the partners would pursue the rights to the relevant acreage, either by farming-in with current owners or waiting until the assets were sold or licenses expired (whereupon KMG

ASTANA 00000848 002 OF 002

E&P's preferential rights could be exercised). Only when this was accomplished would full production begin.

16. (C) On March 29, ExxonMobil Exploration Company's Astana-based representative, Peter Claypoole, showed Energy Officer a map of the proposed AMI. The AMI extends approximately 100-125 kilometers inland from the Caspian Sea all the way around the North Caspian from the Tengiz oil field to the Russian border. Claypoole explained that the existing leaseholders -- including British "Max Petroleum" and China's SINOPEC -- were currently producing oil from technically-easy, shallow reservoirs, while attempting to do what ExxonMobil was proposing to do -- conduct difficult, expensive seismic surveys of the deep strata whose characteristics were largely hidden from seismic view by intervening "salt caps." These strata, Claypoole explained, were the same strata in which the bulk of offshore Kashagan reserves lay, as well as other major finds throughout the geological basin. However, both because the strata were even deeper onshore than off, and because the intervening salt "cap" dissipated seismic signals, relatively little was known about potential reserves. Claypoole noted that the technical challenges also meant that companies like Max Petroleum or SINOPEC -- or KMG E&P, for that matter -- were unlikely to be able to analyze or develop the structures on their own, making it more likely that the ExxonMobil/KMG E&P partnership would be able to obtain the relevant acreage in time.

17. (C) Comment: It would surprise us if the GOK were seriously considering rescinding KMG E&P's "preferential rights" due to the company's 40% IPO. After all, KMG E&P aggressively marketed the existence of those rights in the run-up to the IPO, and their existence presumably does much to justify the current share price. The GOK's more likely concern is whether it makes strategic sense for KMG E&P to bind itself to a single international company in the development of such a large portion of its onshore. Furthermore, it is one thing for ExxonMobil to succeed in promoting itself at the "working" (KMG E&P) level for a project like this; it is an entirely different matter to

succeed at the "political" level (Karabalin and above), where ExxonMobil's current reputation as CPC expansion spoiler will likely lengthen the odds against it in this bid for new business. End comment.

ORDWAY